

CITY OF FORT LAUDERDALE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED SEPTEMBER 30, 2008

This section is intended to provide readers of this report with a general overview of the financial activities of the City during FY2008. The information in this section should be considered only in the context of the Transmittal Letter at the beginning of this report, as well as the financial statements and notes to financial statements which follow.

Financial Highlights

- The City's total assets exceeded its liabilities at September 30, 2008 by \$971 million (net assets). Of this amount, \$374 million was from governmental activities and \$597 million was from business-type activities.
- The City's revenues for governmental activities, excluding transfers, totaled \$316 million, a 6% decrease from FY2007. The decrease is attributed to significantly lower income from property taxes and earnings on investments. Expenses for governmental activities increased by 5% to \$289 million. The majority of the increase is attributed to expenses for Public Safety and Transportation.
- Revenues related to business-type activities increased by \$8 million to \$145 million and expenses increased by \$9 million to \$111 million.
- The General Fund's balance increased by \$12 million to \$91.5 million due primarily to higher than anticipated revenues and lower than anticipated expenditures. The unreserved undesignated balance of \$62.1 million represents a decrease from the \$68.2 million balance at the end of FY2007.
- The City's long-term debt increased by \$153 million net of retirements to \$486 million. This includes \$155 million in Water and Sewer Revenue bonds and \$14 million in draws on Florida State Revolving Fund loans for water and wastewater system improvements.
- The total fair market value of the City's investments at September 30, 2008 was \$1.2 billion. Interest rates steadily declined throughout the fiscal year.

Overview of Financial Statements

The basic financial statements are comprised of government-wide statements that offer a summary of financial activity and more specific fund statements that present more detailed information.

Government-Wide Statements (pages 11 through 13) include the statement of net assets and statement of activities. They provide a broad overview of the City as a whole similar to private sector financial statements. The *statement of net assets* shows the total assets and liabilities for the City with the difference being net assets. The *statement of activities* provides a breakdown of revenues and expenditures by function. Functions generally supported by taxes and intergovernmental revenues such as police, fire-rescue, parks and recreation, and public works are considered governmental activities. Those functions that are primarily funded through user fees and charges are identified as business-type activities. In Fort Lauderdale, the latter activities include Water and Sewer, Sanitation, the Parking System, the Executive Airport, and Stormwater.

The government-wide statements include component units such as the City's Community Redevelopment Agency (CRA) and the Sunrise Key Safe Neighborhood District even though they are technically not part of the primary City government. The City Commission acts as the Board of Directors of the CRA and the City Commission is required to adopt the millage rate for the Sunrise Key District when it adopts the property tax levies for City operations and debt service. These financial statements do not include fiduciary funds such as the employee pension plans because those resources cannot be used for the City's activities. Details of the fiduciary funds are provided in the fund statements.

The **Fund Financial Statements** are found on pages 14 through 27. The City of Fort Lauderdale uses fund accounting to track the sources and uses of resources for specific purposes. The City categorizes funds into three basic fund types: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds (beginning on page 14) are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the previous statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Since the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison highlights the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances offer a reconciliation to assist with this comparison.

The City of Fort Lauderdale maintains 20 individual governmental funds. Of this number, only the General Fund is considered a major fund and thus is reflected separately in the fund financial statements. All the other governmental funds are combined for presentation purposes as nonmajor funds.

Proprietary Funds (beginning on page 21) are comprised of two different categories. Enterprise funds include business-type activities such as Water and Sewer, Sanitation, the Parking System, the Executive Airport, and Stormwater. Internal service funds include vehicle rental, central services (telecommunications and printing services), and insurance services. The latter functions provide support to internal City departments rather than services to the public. These funds are also reported as either major or nonmajor funds depending upon the significance of their financial activity.

Fiduciary Funds (beginning on page 26), which are not included in the government-wide statements, are presented in this section and include the City's Police and Fire Pension Plan and the General Employee Retirement System as well as the financial activity of the Arts and Science District Garage.

Notes to Financial Statements (beginning on page 28) are integral to a complete understanding of both the government-wide and fund financial statements. They provide additional explanation of the amounts shown in the various statements.

Other Information

This report also includes supplementary information related to the City's employee pension obligations. The combining statements in connection with non-major governmental and enterprise funds, internal service funds, fiduciary funds and non-major component units are presented following the required supplementary information.

Additional statistical information is presented to give report users a better historical perspective and assist in assessing current financial status and trends of the governmental unit. Economic data is presented to allow a broader understanding of the economic and social environment in which the City government operates.

Government-wide Financial Analysis

The table below summarizes Fort Lauderdale's net assets for the 2008 and 2007 fiscal years.

City of Fort Lauderdale, Florida Net Assets (in thousands of \$)

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|----------------------------|----------------|-----------------------------|----------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and other assets | \$ 288,354 | 272,421 | 249,875 | 197,064 | 538,229 | 469,485 |
| Capital assets | <u>247,754</u> | <u>244,290</u> | <u>807,154</u> | <u>676,687</u> | <u>1,054,908</u> | <u>920,977</u> |
| Total assets | <u>536,108</u> | <u>516,711</u> | <u>1,057,029</u> | <u>873,751</u> | <u>1,593,137</u> | <u>1,390,462</u> |
| Long-term liabilities outstanding | 133,324 | 138,191 | 416,268 | 252,510 | 549,592 | 390,701 |
| Other liabilities | <u>28,489</u> | <u>31,103</u> | <u>44,025</u> | <u>57,072</u> | <u>72,514</u> | <u>88,175</u> |
| Total liabilities | <u>161,813</u> | <u>169,294</u> | <u>460,293</u> | <u>309,582</u> | <u>622,106</u> | <u>478,876</u> |
| Net Assets: | | | | | | |
| Invested in capital assets | | | | | | |
| net of related debt | 199,486 | 192,895 | 440,451 | 434,102 | 639,937 | 626,997 |
| Restricted | 15,772 | 17,776 | 32,244 | 20,147 | 48,016 | 37,923 |
| Unrestricted | <u>159,037</u> | <u>136,746</u> | <u>124,041</u> | <u>109,920</u> | <u>283,078</u> | <u>246,666</u> |
| Total net assets | <u>\$ 374,295</u> | <u>347,417</u> | <u>596,736</u> | <u>564,169</u> | <u>971,031</u> | <u>911,586</u> |

The City's investment in capital assets (land, buildings, improvements, infrastructure and equipment) net of the related debt outstanding used to acquire those assets represents 66% of its net assets. These capital assets are used to provide services to the citizens and are not available for future spending. The resources needed to repay the debt incurred to acquire these assets will come from future revenues.

The balance of net assets includes resources subject to external restrictions (\$48 million) and unrestricted net assets (\$283 million) that may be used to meet the City's ongoing obligations. The unrestricted amount is \$36 million higher than at the end of fiscal year 2007.

Total net assets increased by \$59 million, a 6.5% gain over the prior year. The following table summarizes changes in net assets for governmental and business-type activities for the past two fiscal years.

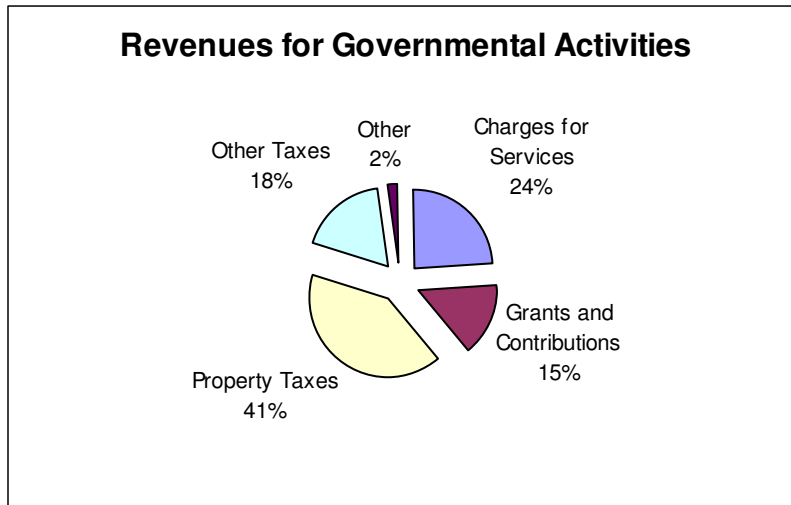
City of Fort Lauderdale, Florida
Changes in Net Assets
(in thousands of \$)

| | Governmental | | Business-type | | Total | |
|-----------------------------------|---------------------|----------------|----------------------|----------------|----------------|----------------|
| | Activities | | Activities | | | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | | | |
| Program revenues: | \$ | | | | | |
| Charges for services | 75,815 | 72,728 | 131,160 | 122,496 | 206,975 | 195,224 |
| Operating grants/contributions | 26,545 | 28,738 | 374 | 324 | 26,919 | 29,062 |
| Capital grants/contributions | 5,486 | 6,088 | 8,070 | 5,417 | 13,556 | 11,505 |
| General revenues: | | | | | | |
| Property taxes | 128,014 | 138,198 | - | - | 128,014 | 138,198 |
| Other taxes | 57,390 | 57,463 | - | - | 57,390 | 57,463 |
| Grants and Contributions | 15,665 | 17,032 | - | - | 15,665 | 17,032 |
| Investment earnings | 5,497 | 14,961 | 4,971 | 8,746 | 10,468 | 23,707 |
| Other | 1,151 | 1,243 | - | - | 1,151 | 1,243 |
| Total revenues | <u>315,563</u> | <u>336,451</u> | <u>144,575</u> | <u>136,983</u> | <u>460,138</u> | <u>473,434</u> |
| Expenses: | | | | | | |
| General Government | 43,146 | 45,029 | - | - | 43,146 | 45,029 |
| Public Safety | 165,091 | 154,936 | - | - | 165,091 | 154,936 |
| Physical Environment | 8,908 | 8,179 | 93,476 | 85,616 | 102,384 | 93,795 |
| Transportation | 12,464 | 6,677 | 17,940 | 16,163 | 30,404 | 22,840 |
| Economic Environment | 17,174 | 17,984 | - | - | 17,174 | 17,984 |
| Culture and Recreation | 38,828 | 37,651 | - | - | 38,828 | 37,651 |
| Interest on Long-term Debt | 3,666 | 4,298 | - | - | 3,666 | 4,298 |
| Total expenses | <u>289,277</u> | <u>274,754</u> | <u>111,416</u> | <u>101,779</u> | <u>400,693</u> | <u>376,533</u> |
| Increase (decrease) in net assets | | | | | | |
| before transfers | 26,286 | 61,697 | 33,159 | 35,204 | 59,445 | 96,901 |
| Transfers | 592 | 1,044 | (592) | (1,044) | - | - |
| Increase (decrease) in net assets | <u>26,878</u> | <u>62,741</u> | <u>32,567</u> | <u>34,160</u> | <u>59,445</u> | <u>96,901</u> |
| Net assets beginning of year | <u>347,417</u> | <u>284,676</u> | <u>564,169</u> | <u>530,009</u> | <u>911,586</u> | <u>814,685</u> |
| Net assets end of year | <u>\$ 374,295</u> | <u>347,417</u> | <u>596,736</u> | <u>564,169</u> | <u>971,031</u> | <u>911,586</u> |

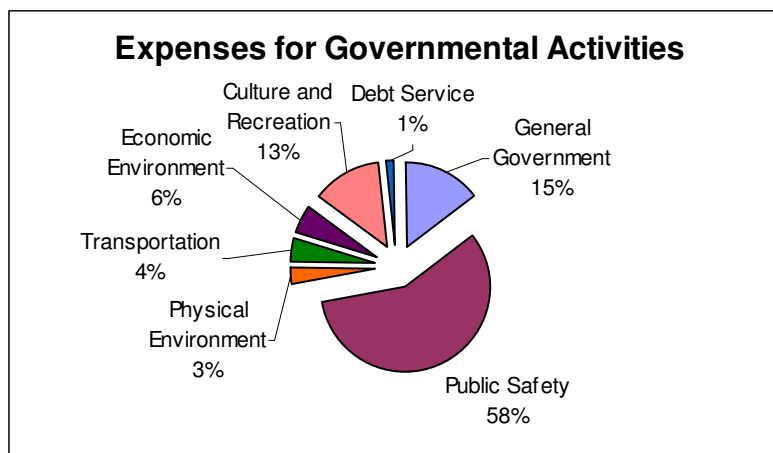
Revenues from governmental activities decreased by \$21 million or 6% compared to 2007. The property tax levy was reduced by \$10 million to comply with a state mandate to roll back taxes. Investment earnings decreased \$9 million due to the unfavorable economic conditions.

Expenses for governmental activities increased by \$14 million, with public safety functions accounting for \$10 million of that amount.

As the following chart of revenues from governmental activities (by source) shows, property and other taxes provided 59% of the revenues used to fund governmental functions. Charges for services, such as parks and recreation programs and emergency medical transport, comprised 24% of total revenues.



Expenses for governmental activities (by function) are guided by City priorities as seen in the following chart. Public Safety, comprised of Police, Fire-Rescue, and Building department services, is clearly the highest priority, consuming 58% of all resources. General government and culture and recreation expenses accounted for 15% and 13%, respectively.



For the business-type activities, net assets showed an increase of \$33 million. Total revenues for these activities increased by \$8 million with capital grants accounting for \$2.7 million. Charges for services increased by 7.1%.

Expenses for business-type activities increased \$9.6 million. Physical Environment costs increased by \$7.9 million. Approximately \$5.5 million of that increase was attributed to higher operating costs in the Water and Sewer Fund. Transportation costs (parking and airport) increased by \$1.8 million of which \$1.2 million was used to rehabilitate parking facilities.

Financial Analysis of the Government's Funds

The fund financial statements for *governmental funds* provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Fort Lauderdale's financing requirements. In particular, the unreserved fund balance is a useful indicator of the City's net resources available for spending at the end of the fiscal year.

The General Fund balance at September 30, 2008 was \$91.5 million, an increase of \$12.0 million over the prior year balance of \$79.5 million. Unreserved and undesignated fund balance decreased slightly from \$68.2 million to \$62.1 million.

General fund revenues for fiscal year 2008 totaled \$278 million, a \$14 million decrease from 2007. Property taxes accounted for \$10.1 million of the decrease, resulting from the State mandate to roll back the millage rate to the FY2006 level and reduce property tax revenue by an additional 7%. Another \$2.4 million decrease in permit revenues reflects the current decline in the construction industry. Charges for services decreased by \$1.2 million, with \$735,000 being attributed to fire services and fees. Intergovernmental revenues showed a decline of \$618,000. Other revenues increased \$1.1 million, the majority of which resulted from increased assessments and other fees.

Total expenditures increased \$6 million in 2008 from \$243 million to \$249 million. The more significant increases include \$6.1 million for salaries and wages and \$2.3 million for services and materials. These increases are partially offset by reductions in premiums paid to the City Insurance Internal Service Fund including \$3.5 million for workers' compensation, \$1 million for employer practices and \$900,000 for police professional liability.

The combined fund balances of the non-major governmental funds increased by \$1.6 million to \$113 million. The governmental funds ended the year with \$205 million in fund balance including \$80 million unreserved and undesignated.

The City's *proprietary funds* are presented in more detail in the fund statements but represent the same activities reflected in the business-type activities. Proprietary funds include both the enterprise and internal service funds. Net assets of the Water and Sewer fund grew by \$21 million with total enterprise net assets growing by \$32 million. In FY2008 enterprise funds showed a total increase in operating income of \$0.4 million overall. Capital contributions increased \$1.2 million and funded improvements at the executive airport.

At September 30, 2008, the City's insurance fund had a net assets balance of \$9.6 million, down from \$10.4 million in 2007. Favorable claims experience in the health insurance area accounted for a \$1.5 million increase. On the casualty side, a decrease of \$2.3 million resulted from unfavorable general liability and employer practices claims experience.

General Fund Budgetary Highlights

Actual General Fund revenues for fiscal year 2008 were greater than the final FY2008 budget by \$6.6 million. Property, utility and franchise taxes accounted for \$3.4 million of the favorable results. Unanticipated revenues from the Department of Homeland Security amounted to \$750,000. Another \$1.7 million was gained from assessments and other fees and alarm fees were \$440,000 higher than anticipated.

Total expenditures of \$256 million (including encumbrances of \$6.8 million) were \$7.6 million below the final FY2008 Budget. This is mainly attributed to personal services cost savings of \$3.8 million due to a position vacancy rate of 5.05% during the year. Services and materials costs were also \$3.5 million lower than anticipated.

Capital Assets and Debt Administration

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities is shown in the following table. Additions for the year included \$6.5 million for completion of the airport fire station, \$3.1 million for extension of the Riverwalk and \$2 million in infrastructure improvements.

Capital asset balances of the business-type activities increased by \$130 million, reflecting major ongoing capital improvements in the water and sewer and stormwater systems. Among completed projects were \$47.6 million for the wastewater collection system, force mains and pumping stations and \$20.5 million for water mains. An additional \$59.8 million was added to construction in progress during the year. Additional information about the City's capital assets can be found in note 7 to the financial statements.

City of Fort Lauderdale, Florida Capital Assets (net of depreciation) (in thousands of \$)

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|----------------------------|----------------|-----------------------------|----------------|------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Land | \$ 53,599 | 53,550 | 25,937 | 25,937 | 79,536 | 79,487 |
| Buildings | 86,595 | 82,094 | 102,659 | 91,235 | 189,254 | 173,329 |
| Improvements other than buildings | 39,902 | 38,917 | 305,117 | 243,723 | 345,019 | 282,640 |
| Machinery and equipment | 37,114 | 35,598 | 7,330 | 6,567 | 44,444 | 42,165 |
| Infrastructure | 11,629 | 10,007 | - | - | 11,629 | 10,007 |
| Construction in progress | 18,915 | 24,124 | 366,111 | 309,225 | 385,026 | 333,349 |
| Total | <u>\$ 247,754</u> | <u>244,290</u> | <u>807,154</u> | <u>676,687</u> | <u>1,054,908</u> | <u>920,977</u> |

The City issued no new governmental activity debt during the year. Principal retirements amounted to \$10 million. In the business-type activities, \$155 million water and sewer revenue bonds were issued and \$14 million was drawn on Florida state revolving fund loans authorized for a total of \$96 million. Principal retirements for business-type activities totaled \$6.8 million. Additional information about the City's long-term debt can be found in notes 10 and 11 to the financial statements.

City of Fort Lauderdale, Florida Outstanding Debt * (in thousands of \$)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|---------------|-----------------------------|----------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| General obligation bonds | \$ 39,305 | 41,620 | - | - | 39,305 | 41,620 |
| Excise tax bonds | 3,520 | 6,900 | - | - | 3,520 | 6,900 |
| Revenue bonds | - | - | 335,105 | 183,970 | 335,105 | 183,970 |
| Tax Increment revenue bonds | 17,544 | 18,691 | - | - | 17,544 | 18,691 |
| Capital leases | 2,639 | 3,657 | - | - | 2,639 | 3,657 |
| Loans payable and other Obligations | 15,410 | 17,075 | 72,316 | 61,236 | 87,726 | 78,311 |
| Total Debt Outstanding | <u>\$ 78,418</u> | <u>87,943</u> | <u>407,421</u> | <u>245,206</u> | <u>485,839</u> | <u>333,149</u> |

* Excludes unamortized bond premiums, discounts, gains/losses on advance refundings and other liabilities such as estimated insurance claims and compensated absences.

Economic Factors and Next Year's Budget and Rates

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) rely on property and a limited array of permitted other taxes (sales, gasoline, and utilities) and fees (franchise, occupational license) for their governmental activities. For the business-type and certain governmental activities (construction services and recreational programs), the user pays a related fee or charge associated with the service.

The adopted operating budget for FY2009 is \$602.7 million or 12.4% higher than the FY2008 adopted budget. The General Fund budget for FY2009 is \$348.2 million or 8.8% higher than FY2008. Included in this amount is a carryforward fund balance of \$72 million. The millage rate was increased 0.03% from 4.2482 to 4.2495. Water and sewer rates were increased 5% and stormwater rates were increased 5%.

The adopted General Fund budget in FY2009 addresses the five key priorities of the City Commission including minimizing impacts of revenue losses, continued focus on quality of life issues, development of plans for the City's future and neighborhood and City infrastructure improvements.

Requests for Information

This financial report is designed to provide a general overview of the City of Fort Lauderdale's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Fort Lauderdale, 100 North Andrews Avenue, Fort Lauderdale, Florida 33301.